

Before the
Federal Communications Commission
Washington, D.C. 20554

In the Matter of)	
)	
Application of Verizon New Jersey, Inc.,)	
et al., For Authorization to Provide)	
In-Region, InterLATA Services)	CC Docket No. 01-347
in New Jersey)	
_____)	

**DECLARATION OF VIJETHA HUFFMAN
ON BEHALF OF WORLDCOM, INC.**

Based on my personal knowledge and on information learned in the course of my duties,
I, Vijetha Huffman, declare as follows:

1. My name is Vijetha Huffman. I am Senior Manager of Local Business Development for the Mass Markets Division of WorldCom. I am responsible for financial planning, operational and business analysis, and new market development in support of WorldCom's entry into the residential local business. This includes evaluating the financial viability of providing residential local service in markets that WorldCom has not yet entered and determining price changes necessary for WorldCom to enter. I have worked for WorldCom (and its predecessor MCI) for 6 years in a number of finance positions.

2. The purpose of my declaration is to explain why local service is critical to WorldCom's business plans for the residential market and how New Jersey's network element pricing presents a price squeeze for competitors and prevents the development of local competition in the state.

I. LACK OF MARKET ENTRY IN NEW JERSEY VIA UNE-P

3. WorldCom would like to serve a broad range of customers in New Jersey and other states, offering a package of services to the mass market that includes local service. However, WorldCom is unable to enter the local residential market in New Jersey because of Verizon's high prices for UNEs.

4. A strong local presence is essential to WorldCom's competitive success in providing service to residential customers. Many residential customers are seeking fully integrated telecommunications services, including local, long distance, and Internet access. Customers also seek the opportunity to benefit from new and innovative products and to save money on their telephone bills. Thus, the ability to profitably offer integrated products is critical to WorldCom's plans to respond to the needs of its existing long distance customer base and to attract new customers.

5. UNE-P, the combination of all unbundled elements necessary to provide local service, is the only service-entry vehicle that WorldCom uses to offer local residential service, and it is the only service-delivery option that WorldCom currently views as even potentially viable. The UNE-P mode of entry provides WorldCom with greater flexibility than resale to offer innovative products and permits much faster and more pervasive market entry than a pure facilities-based offering. Moreover, when UNE prices are truly set at cost-based rates, CLECs generally can compete profitably with the ILECs. Where barriers to entry such as anti-competitive pricing and discriminatory OSS are eliminated, WorldCom will use UNE-P to enter residential markets.

6. UNE-P is the means that WorldCom uses to provide local residential service in a growing number of states in which conditions permit entry in at least some part of the state, and now includes New York, Texas, Pennsylvania, Michigan, Illinois, Georgia and very limited parts of

Florida. It is notable that WorldCom has entered many states that have not been granted section 271 authority (Michigan, Illinois, Georgia and Florida), and of the entry states that have been granted authority (New York, Pennsylvania and Texas), WorldCom entered well before section 271 authority was granted, sometimes by more than a year. On the other hand, section 271 approval has not caused WorldCom to enter any state: WorldCom has not entered Massachusetts, Kansas, Oklahoma, Missouri, Arkansas or Connecticut. As noted above, WorldCom is unable to enter New Jersey due to Verizon's above-cost rates, a fact that would not change by the grant of section 271 authority.

II. PRICE SQUEEZE IN NEW JERSEY

7. WorldCom generally will not sell goods or services unless it believes it can do so profitably. Selling basic residential service profitably in New Jersey using Verizon's facilities currently is not feasible for competitive carriers, including WorldCom.

8. As seen in Attachment 1 hereto, there are three zones, called cells, in New Jersey, which range from urban to rural. Attachment 1 demonstrates the monthly revenue a carrier would receive if it provided basic local service with one feature at the same retail price Verizon charges, and then subtracts from that revenue the "telco" costs, or, in other words, the costs of the leased unbundled network elements. From that amount, i.e., the gross margin, a carrier must then cover its own internal costs. Internal costs typically include customer service costs, costs associated with customers who don't pay their bills, billing and collections, overhead, marketing costs, and other operational costs, and exceed \$10 per line per month, even apart from significant up front development costs.

9. The principal driver of the excessive telco costs is the high cost of switch usage. With the growth of the Internet, customers use their phones (and the phone company's switches) for

much longer periods of time today than they did even a few years ago. Indeed, reliable estimates of usage initially were difficult to make. When WorldCom initially entered the local residential market in late 1998, we had to keep increasing our estimate of average minutes of use based on our growing experience with local customers, until we gained adequate experience over a sufficient period of time to make solid estimates. We now know that the minutes of local originating switch usage each month is considerably higher than the number we initially used three years ago when we were attempting to predict our customers' usage patterns in New York. In part, this is due to a trend toward increasing local residential usage over time. The effect of this increase in switch usage is that unbundled local switching rates (indeed, all usage-sensitive rates) have a much greater effect on the total price of UNE-P than was initially anticipated.

10. In Attachment 1 to this declaration, we assume each line will generate ***
*** minutes of local originating switch usage each month. That number has been consistently used by WorldCom in analyzing the profitability of various states for some time, and is significantly lower than our actual recent experience in the Verizon states of New York and Pennsylvania. Our actual experience in those states is that the average residential line generates over *** *** minutes of local originating switch usage each month, and these are not the highest usage states of the seven that WorldCom has entered. Actual usage being higher than our assumption thus offsets the smaller calling areas that exist in New Jersey.

11. As shown on Attachment 1, even a CLEC selling local residential service for the same price as Verizon would not make nearly enough money to pay for the cost of the elements it leases to provide the service and its own internal costs. For example, in the most favorable zone, the gross margin between a CLEC's revenues and telco costs using UNE-P would be \$7.44 per line each month, which is insufficient to cover a company's internal costs. The problem is worse in the other

zones, where the gross margin is \$5.73 and \$3.85, before the CLEC pays any of its internal costs.

The statewide average gross margin is only \$5.62, meaning that on average a CLEC would lose several dollars on every customer every month once it covers its internal costs. CLECs would also lose several dollars per month on each line under the price squeeze described in the BPU Transcript of November 20, 2001, although the BPU calculations are about \$3 less per line than ours on the revenue side (due to lower access and feature revenue calculations), and about \$4.50 less per line on the telco side (due to an assumption of only 500 originating minutes of use and failure to include any charge for the Daily Usage Feed).

12. Internal CLEC costs of more than \$10 that must be covered by the gross margin are largely comprised of elements over which a CLEC has little control. The single largest cost is for customer service and credits, which amount to *** per month per line. Customer service costs include all costs of servicing the customer, including: answering questions when customers call; providing trouble support, such as if a line is not working; and performing account maintenance functions. This cost is largely driven by the extent of customer problems and questions, which can be greatly increased by an incumbent's poor provisioning of UNE-P service, over which the CLEC has no control.

13. A second large internal cost results from customers who do not pay their bills, which amounts to *** per month per line, based on our 2001 experience of the percentage of bad debt in New York, as applied to projected New Jersey revenues. Due to the importance of local phone service, state commissions closely regulate the process for cutting off service to those who refuse to pay their bills, which limits the extent to which CLECs can avoid bad debt costs.

14. Another internal costs is billing and collections at *** per month per line, which includes sending out initial bills, sending letters to customers who do not pay, and other

collection activities. In addition, there are sales and acquisition costs, which vary from market to market based on the effort undertaken and results realized. Notably, overhead only amounts to ***
*** per month per line.

15. Verizon repeatedly claims that the lack of local residential competition must simply be accepted because the residential retail rates are the lowest in the country. What Verizon ignores, however, is that the access charges compare favorably to other states, so the total revenue that a CLEC would receive by charging the same rates as Verizon are not so low as to preclude competition if UNE rates were at the proper level. In fact, the total revenue in New Jersey is higher than in Texas, where WorldCom long ago entered the local residential service market, and is comparable to Florida, where WorldCom recently entered, and is not far from many other states.

16. As discussed in the Declaration of Chris Frentrup, the pricing methodology and inputs used to set UNE rates in New Jersey contain errors that led to high rates that do not support local residential competition. The switch usage rates are high, rather than being close to the low end of the range of TELRIC found reasonable by the FCC or state commissions, as shown on Attachment 2. Verizon's loop rates in New Jersey also exceed cost-based rates based on a proper TELRIC model, as discussed in the Frentrup Declaration.

17. While New York's high UNE rates were specifically found by the state commission and the FCC to permit local residential competition given New York's generous retail rates, that is clearly not the case in New Jersey, as shown above. Rather than merely aiming to be within the high end of what the FCC considers the range of TELRIC, Verizon must be pointed to the low end of the range in order to eliminate the price squeeze and permit local competition in New Jersey. To achieve irreversible residential competition in New Jersey, Verizon must establish prices that allow competitors to gain a customer without losing money.

18. This concludes my declaration on behalf of WorldCom.